

**UNITED STATES OF AMERICA**  
**Before the**  
**OFFICE OF THRIFT SUPERVISION**

In the Matter of	)	
	)	Order No.: CN 10-11
	)	
	)	
<b>FRONTIER BANK</b>	)	Effective Date: March 22, 2010
	)	
Rock Rapids, Iowa	)	
OTS Docket No. 12117	)	
	)	

**ORDER TO CEASE AND DESIST**

**WHEREAS**, Frontier Bank, Rock Rapids, Iowa, OTS Docket No. 12117 (Association), by and through its Board of Directors (Board), has executed a Stipulation and Consent to the Issuance of an Order to Cease and Desist (Stipulation); and

**WHEREAS**, the Association, by executing the Stipulation, has consented and agreed to the issuance of this Order to Cease and Desist (Order) by the Office of Thrift Supervision (OTS) pursuant to 12 U.S.C. § 1818(b); and

**WHEREAS**, pursuant to delegated authority, the OTS Regional Director for the Central Region (Regional Director) is authorized to issue Orders to Cease and Desist where a savings association has consented to the issuance of an order.

**NOW, THEREFORE, IT IS ORDERED that:**

**Cease and Desist.**

1. The Association and its directors, officers, and employees shall cease and desist from any action (alone or with others) for or toward causing, bringing about, participating in or

counseling, or the aiding and abetting of the unsafe or unsound practices that resulted in the Association operating with an inadequate level of capital protection for the volume, type and quality of assets held by the Association and with an excessive level of classified loans as described in the OTS Report of Examination of the Association dated September 14, 2009 (ROE).

**Capital.**

2. (a) By June 30, 2010, the Association shall meet and maintain, after the funding of an adequate Allowance for Loan and Lease Losses (ALLL): (i) a Tier 1 (Core) Capital Ratio equal to or greater than six and one-half percent (6.5%) and (ii) a Total Risk-Based Capital Ratio equal to or greater than ten and one-half percent (10.5%).
- (b) By September 30, 2010, the Association shall meet and maintain, after the funding of an adequate ALLL: (i) a Tier 1 (Core) Capital Ratio equal to or greater than seven percent (7%); and (ii) a Total Risk-Based Capital Ratio equal to or greater than eleven percent (11%).
- (c) The requirement in Subparagraphs (a) and (b) above to meet and maintain a specific capital level means that the Association may not be deemed to be “well-capitalized” for purposes of 12 U.S.C. §1831o and 12 C.F.R. Part 565, pursuant to 12 C.F.R. §565.4(b)(1)(iv).

**Business Plan.**

3. (a) By April 15, 2010, the Association shall submit an updated business plan for the period beginning April 1, 2010 through December 31, 2011 (Business Plan) that is acceptable to the Regional Director. At a minimum, the Business Plan shall include:

- (i) plans and operating strategies to achieve realistic core earnings and net income levels that will result in consistent profitability throughout the term of the Business Plan, including detailed information of the Association's loan portfolio;
  - (ii) financial and personnel resources to implement and adhere to the Business Plan, adequately support the Association's risk profile, maintain compliance with applicable regulatory capital requirements, comply with this Order, and maintain appropriate levels of liquidity;
  - (iii) the Association's capital preservation and enhancement strategies with specific narrative goals;
  - (iv) the specific sources of additional capital and timeframes and methods by which additional capital will be raised to comply with Paragraph 2, including specific target dates and capital levels;
  - (v) detailed quarterly financial projections for the period beginning with April 1, 2010 through December 31, 2011; and
  - (vi) identification of all relevant assumptions made in formulating the Business Plan and retention of documentation supporting such assumptions.
- (b) Upon receipt of written notification from the Regional Director that the Business Plan is acceptable, the Association shall implement the Board-approved Business Plan. A copy of the Business Plan shall be provided to the Regional Director within ten (10) days after Board approval.
- (c) The Association shall operate within the parameters of its Board-approved Business Plan. Any proposed material deviations from or changes to the Business Plan shall be submitted for the prior, written non-objection of the Regional Director. Requests

for any material deviations or changes must be submitted at least sixty (60) days before a proposed change is implemented.

(d) By December 31, 2010, and each December 31<sup>st</sup> thereafter while this Order is effective, the Business Plan shall be updated and submitted to the Regional Director incorporating the Association's budget plan and profit projections for the next two (2) fiscal years and taking into account any revisions to the Association's loan, investment and operating policies, including the Problem Asset Program required by Paragraph 7 of this Order.

4. (a) Within forty-five (45) days after the close of each quarter, beginning with the quarter ending June 30, 2010, the Board shall review quarterly variance reports on the Association's compliance with its Business Plan (Variance Reports). The Board's review of Variance Reports and compliance with the Business Plan shall be fully documented in the appropriate Board meeting minutes. The Variance Reports shall:

- (i) identify variances in the Association's actual performance during the preceding quarter as compared to the projections set forth in the Business Plan;
- (ii) contain an analysis and explanation of identified variances; and
- (iii) discuss the specific measures taken or to be taken by the Association to address identified variances.

(b) Within fifty-five (55) days after the end of each quarter, beginning with the quarter ending June 30, 2010, the Board shall provide the Regional Director with a copy of the Variance Report required by this Paragraph.

### **Contingency Plan.**

5. (a) Within thirty (30) days after: (i) the Association fails to meet the capital requirements prescribed in Paragraph 2; (ii) the Association fails to comply with the Business Plan prescribed in Paragraph 3; or (iii) any written request from the Regional Director, the Board shall prepare and submit a written Contingency Plan that is acceptable to the Regional Director.
- (b) The Contingency Plan shall detail the actions to be taken, with specific time frames, to achieve one of the following results by the later of the date of receipt of all required regulatory approvals or sixty (60) days after the implementation of the Contingency Plan: (i) merger with or acquisition by another federally insured depository institution or holding company thereof; or (ii) voluntary dissolution by filing an application with OTS in conformity with federal laws and regulations.
- (c) Upon receipt of written notification from the Regional Director, the Association shall implement the Contingency Plan immediately. The Board shall provide the Regional Director with written status reports detailing the Association's progress in implementing the Contingency Plan by no later than the first (1<sup>st</sup>) and fifteenth (15<sup>th</sup>) of each month following implementation of the Contingency Plan (Contingency Status Reports).

### **Allowance for Loan and Lease Losses.**

6. (a) Within thirty (30) days, the Association shall submit revised ALLL procedures and methodology (ALLL Policy) acceptable to the Regional Director that address the comments in the ROE and conforms to regulatory guidance, including OTS CEO Memoranda No. 329 (Accounting for Credit Losses and Impairments).

(b) Within forty-five (45) days after the end of each quarter, beginning with the quarter ending March 31, 2010, the Board shall review a written report discussing; (i) the methodology of the Association's ALLL process given current economic conditions and the Association's risk profile; and (ii) the adequacy of the Association's ALLL consistent with its ALLL Policy (Quarterly ALLL Report). The Board's review of the Quarterly ALLL Report, including all qualitative factors considered in determining the adequacy of the Association's ALLL and whether the ALLL Policy should be amended, shall be fully documented in the Board meeting minutes.

**Problem Asset Program.**

7. (a) Within forty-five (45) days, the Association shall implement a detailed, written program with specific strategies, targets and timeframes to reduce<sup>1</sup> the Association's level of problem assets<sup>2</sup> (Problem Asset Program). At a minimum, the Problem Asset Program shall require the preparation of individual written specific workout plans to reduce the Association's risk position in each problem asset or group of loans to any one borrower or loan relationship of five hundred thousand dollars (\$500,000) or greater identified by the Association's internal loan review (Asset Workout Plans). Asset Workout Plans shall be prepared and implemented by the Association while this Order is effective.

(b) Within forty-five (45) days after the end of each quarter, beginning with the quarter ending March 31, 2010, the Board shall review a quarterly written asset status report (Quarterly Asset Report). The Board's review of the Quarterly Asset Report shall

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<sup>1</sup> For purposes of this Paragraph, "reduce" means to collect, sell, charge off, or improve the quality of an asset sufficient to warrant its removal from adverse criticism or classification.

<sup>2</sup> The term "problem assets" shall include all classified assets, assets designated special mention, all nonperforming assets and all delinquent loans.

be fully documented in the Board meeting minutes. The Quarterly Asset Report shall include, at a minimum:

- (i) the current status of all Asset Workout Plans;
- (ii) a breakdown of problem assets by type (residential, agricultural, construction, land loans, etc.);
- (iii) an assessment of the Association's compliance with the Problem Asset Program and Asset Workout Plans, including whether revisions or updates to the Problem Asset Program or Asset Workout Plans are warranted to reduce the Association's level of problem assets; and
- (iv) a discussion of the actions taken by the Association during the preceding quarter to reduce its level of problem assets.

**Liquidity Policy.**

8. (a) Within thirty (30) days, the Association shall submit a revised liquidity and funds management policy for the Association that is acceptable to the Regional Director (Liquidity Policy). The Liquidity Policy shall, at a minimum:
- (i) address all recommended corrective actions set forth in the ROE relating to liquidity;
  - (ii) conform to applicable OTS regulatory guidance in 12 C.F.R. § 563.161(a)(2) and Section 530 of the OTS Examination Handbook;
  - (iii) require the preparation of a written plan to ensure the maintenance of adequate short-term and long-term liquidity to withstand any anticipated or extraordinary demand against its funding base (Liquidity Plan); and

- (iv) require the Association's review of its Liquidity Policy on at least an annual basis to determine whether revisions or updates are warranted to maintain and follow sound liquidity risk management plans, policies, and procedures.
- (b) Effective immediately, the Association shall, on a weekly basis or more frequently if requested by the Regional Director, submit a liquidity and cash flow analysis acceptable to the Regional Director until such time as the Regional Director releases the Association from this reporting requirement.

**Remediation of ROE Comments.**

9. Within thirty (30) days, the Association shall establish an exception tracking report to identify, monitor and measure the Association's remediation of all Matters Requiring Board Attention and Corrective Actions noted in the ROE (Exception Tracking Report). The Exception Tracking Report shall be submitted to the Board on at least a quarterly basis. The Board's review of the Exception Tracking Report shall be fully documented in the Board meeting minutes.

**Brokered Deposits and Interest Rate Restriction.**

10. Effective immediately, the Association shall comply with the requirements of 12 C.F.R. § 337.6(b).

**Growth.**

11. Effective immediately, the Association shall not increase its total assets during any quarter in excess of an amount equal to net interest credited on deposit liabilities during the prior quarter without the prior written non-objection of the Regional Director. The growth restriction imposed by this Paragraph shall remain in effect until the Regional Director reviews and approves the Association's Business Plan as required under Paragraph 3 of this Order.



### **Dividends.**

12. Effective immediately, the Association shall not pay dividends, which shall include amounts for shareholder taxes that relate to all pretax income that passes through to the shareholders and amounts representing a return on investment, or make any other capital distributions, as that term is defined in 12 C.F.R. § 563.141, without receiving the prior written approval of the Regional Director. The Association's written request for approval should be submitted to the Regional Director at least sixty (60) days prior to the anticipated date of the proposed dividend or distribution of capital.

### **Severance and Indemnification Payments.**

13. Effective immediately, the Association shall not make any golden parachute payment<sup>3</sup> or any prohibited indemnification payment<sup>4</sup> unless, with respect to each such payment, the Association has complied with the requirements of 12 C.F.R. Part 359 and, as to indemnification payments, 12 C.F.R. § 545.121.

### **Directorate and Management Changes.**

14. Effective immediately, the Association shall comply with the prior notification requirements for changes in directors and Senior Executive Officers<sup>5</sup> set forth in 12 C.F.R. Part 563, Subpart H.

### **Transactions with Affiliates.**

15. Effective immediately, the Association shall not engage in any new or revised transaction with an affiliate unless, with respect to each such transaction, the Association has complied with the notice requirements set forth in 12 C.F.R. § 563.41(c)(4), which shall include the information set forth in 12 C.F.R. § 563.41(c)(3). The Board shall ensure that any transaction with an

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<sup>3</sup> The term "golden parachute payment" is defined at 12 C.F.R. § 359.1(f).

<sup>4</sup> The term "prohibited indemnification payment" is defined at 12 C.F.R. § 359.1(l).

<sup>5</sup> The term "Senior Executive Officer" is defined at 12 C.F.R. § 563.555.

affiliate for which a notice is submitted pursuant to this Paragraph of the Order shall comply with the requirements of 12 C.F.R. § 563.41 and Regulation W, 12 C.F.R. Part 223. Prior notice under 12 C.F.R. § 563.41(c)(4) shall not be required for intercompany cost-sharing transactions identified in executed written agreements between the parties.

**Employment Contracts and Compensation Arrangements.**

16. Effective immediately, the Association shall not enter into, renew, extend, or revise any contractual arrangement relating to compensation or benefits for any Senior Executive Officer or director of the Association, unless it first provides the Regional Director with not less than thirty (30) days prior written notice of the proposed transaction. The notice to the OTS shall include a copy of the proposed employment contract or compensation arrangement or a detailed, written description of the compensation arrangement to be offered to such officer or director, including all benefits and perquisites. The Board shall ensure that any contract, agreement, or arrangement submitted to the Regional Director fully complies with the requirements of 12 C.F.R. Part 359, 12 C.F.R. §§ 563.39 and 563.161(b), and 12 C.F.R. Part 570 – Appendix A.

**Third Party Contracts.**

17. Effective immediately, the Association shall not enter into any arrangement or contract with a third party service provider that is significant to the overall operation or financial condition of the Association<sup>6</sup> or outside the Association's normal course of business unless, with respect to each such contract, the Association has: (a) provided the Regional Director with a minimum of thirty (30) days prior written notice of such arrangement or contract; (b) determined that the arrangement or contract complies with the standards and guidelines set forth in OTS Thrift Bulletin 82a; and (c) received written notice of non-objection from the Regional Director.

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<sup>6</sup> A contract will be considered significant to the overall operation or financial condition of the Association where the annual contract amount equals or exceeds two percent (2%) of the Association's total capital.

**Effective Date, Incorporation of Stipulation.**

18. This Order is effective on the Effective Date as shown on the first page. The Stipulation is made a part hereof and is incorporated herein by this reference.

**Duration.**

19. This Order shall remain in effect until terminated, modified or suspended, by written notice of such action by the OTS, acting by and through its authorized representatives.

**Time Calculations.**

20. Calculation of time limitations for compliance with the terms of this Order run from the Effective Date and shall be based on calendar days, unless otherwise noted. If the time calculation falls on a weekend day or national holiday, then the time limit will be the first business day following the weekend day or national holiday.

21. The Regional Director may extend any of the deadlines set forth in the provisions of this Order upon written request by the Association that includes reasons in support for any such extension. Any OTS extension shall be made in writing.

**Submissions and Notices.**

22. All submissions, including progress reports, to the OTS that are required by or contemplated by this Order shall be submitted within the specified timeframes.

23. Except as otherwise provided herein, all submissions, requests, communications, consents or other documents relating to this Order shall be in writing and sent by first class U.S. mail (or by reputable overnight carrier, electronic facsimile transmission or hand delivery by messenger) addressed as follows:

(a) **To the OTS:**

Regional Director  
Office of Thrift Supervision  
One South Wacker Drive, Suite 2000  
Chicago, Illinois 60606  
Facsimile: (312) 917-5001

(b) **To the Association:**

Chairman of the Board  
Frontier Bank  
301 First Avenue  
Rock Rapids, Iowa 51246  
Facsimile: (712) 472-2620

**No Violations Authorized.**

24. Nothing in this Order or the Stipulation shall be construed as allowing the Association, its Board, officers or employees to violate any law, rule, or regulation.

**IT IS SO ORDERED.**

**OFFICE OF THRIFT SUPERVISION**

By: \_\_\_\_\_/s/  
Daniel T. McKee  
Regional Director, Central Region

Date: See Effective Date on page 1

**UNITED STATES OF AMERICA**  
**Before the**  
**OFFICE OF THRIFT SUPERVISION**

In the Matter of	)	
	)	Order No.: CN 10-11
	)	
<b>FRONTIER BANK</b>	)	Effective Date: March 22, 2010
	)	
Rock Rapids, Iowa	)	
OTS Docket No. 12117	)	
	)	

**STIPULATION AND CONSENT TO ISSUANCE OF ORDER TO CEASE AND DESIST**

**WHEREAS**, the Office of Thrift Supervision (OTS), acting by and through its Regional Director for the Central Region (Regional Director), and based upon information derived from the exercise of its regulatory and supervisory responsibilities, has informed Frontier Bank, Rock Rapids, Iowa, OTS Docket No. 12117 (Association) that the OTS is of the opinion that grounds exist to initiate an administrative proceeding against the Association pursuant to 12 U.S.C. § 1818(b);

**WHEREAS**, the Regional Director, pursuant to delegated authority, is authorized to issue Orders to Cease and Desist where a savings association has consented to the issuance of an order; and

**WHEREAS**, the Association desires to cooperate with the OTS to avoid the time and expense of such administrative cease and desist proceeding by entering into this Stipulation and Consent to the Issuance of Order to Cease and Desist (Stipulation) and, without admitting or denying that such grounds exist, but only admitting the statements and conclusions in Paragraphs

1 and 2 below concerning Jurisdiction, hereby stipulates and agrees to the following terms:

**Jurisdiction.**

1. The Association is a “savings association” within the meaning of 12 U.S.C. § 1813(b) and 12 U.S.C. § 1462(4). Accordingly, the Association is an “insured depository institution” as that term is defined in 12 U.S.C. § 1813(c).

2. Pursuant to 12 U.S.C. § 1813(q), the Director of the OTS is the “appropriate Federal banking agency” with jurisdiction to maintain an administrative enforcement proceeding against a savings association. Therefore, the Association is subject to the authority of the OTS to initiate and maintain an administrative cease and desist proceeding against it pursuant to 12 U.S.C. § 1818(b).

**OTS Findings of Fact.**

3. Based on a comprehensive examination of the Association, the OTS finds that the Association has engaged in unsafe or unsound banking practices, including operating with an inadequate level of capital protection for the volume, type and quality of assets held by the Association and with an excessive level of classified loans as described in the OTS Report of Examination of the Association dated September 14, 2009.

**Consent.**

4. The Association consents to the issuance by the OTS of the accompanying Order to Cease and Desist (Order). The Association further agrees to comply with the terms of the Order upon the Effective Date of the Order and stipulates that the Order complies with all requirements of law.

**Finality.**

5. The Order is issued by the OTS under 12 U.S.C. § 1818(b). Upon the Effective Date, the

Order shall be a final order, effective, and fully enforceable by the OTS under the provisions of 12 U.S.C. § 1818(i).

**Waivers.**

6. The Association waives the following:

- (a) the right to be served with a written notice of the OTS's charges against it as provided by 12 U.S.C. § 1818(b) and 12 C.F.R. Part 509;
- (b) the right to an administrative hearing of the OTS's charges as provided by 12 U.S.C. § 1818(b) and 12 C.F.R. Part 509;
- (c) the right to seek judicial review of the Order, including, without limitation, any such right provided by 12 U.S.C. § 1818(h), or otherwise to challenge the validity of the Order; and
- (d) any and all claims against the OTS, including its employees and agents, and any other governmental entity for the award of fees, costs, or expenses related to this OTS enforcement matter and/or the Order, whether arising under common law, federal statutes or otherwise.

**OTS Authority Not Affected.**

7. Nothing in this Stipulation or accompanying Order shall inhibit, estop, bar, or otherwise prevent the OTS from taking any other action affecting the Association if at any time the OTS deems it appropriate to do so to fulfill the responsibilities placed upon the OTS by law.

**Other Governmental Actions Not Affected.**

8. The Association acknowledges and agrees that its consent to the issuance of the Order is solely for the purpose of resolving the matters addressed herein, consistent with Paragraph 7 above, and does not otherwise release, discharge, compromise, settle, dismiss, resolve, or in any

way affect any actions, charges against, or liability of the Association that arise pursuant to this action or otherwise, and that may be or have been brought by any governmental entity other than the OTS.

**Miscellaneous.**

9. The laws of the United States of America shall govern the construction and validity of this Stipulation and of the Order.

10. If any provision of this Stipulation and/or the Order is ruled to be invalid, illegal, or unenforceable by the decision of any Court of competent jurisdiction, the validity, legality, and enforceability of the remaining provisions hereof shall not in any way be affected or impaired thereby, unless the Regional Director in his or her sole discretion determines otherwise.

11. All references to the OTS in this Stipulation and the Order shall also mean any of the OTS's predecessors, successors, and assigns.

12. The section and paragraph headings in this Stipulation and the Order are for convenience only and shall not affect the interpretation of this Stipulation or the Order.

13. The terms of this Stipulation and of the Order represent the final agreement of the parties with respect to the subject matters thereof, and constitute the sole agreement of the parties with respect to such subject matters.

14. The Stipulation and Order shall remain in effect until terminated, modified, or suspended in writing by the OTS, acting through its Regional Director or other authorized representative.

**Signature of Directors/Board Resolution.**

15. Each Director signing this Stipulation attests that he or she voted in favor of a Board Resolution authorizing the consent of the Association to the issuance of the Order and the execution of the Stipulation. This Stipulation may be executed in counterparts by the directors



after approval of execution of the Stipulation at a duly called board meeting.

**WHEREFORE**, the Association, by its directors, executes this Stipulation.

Accepted by:

**FRONTIER BANK**  
**Rock Rapids, Iowa**

**Office of Thrift Supervision**

\_\_\_\_\_/s/\_\_\_\_\_  
George K. Schneidermann, Chairman

By:\_\_\_\_\_/s/\_\_\_\_\_  
Daniel T. McKee  
Regional Director, Central Region

\_\_\_\_\_/s/\_\_\_\_\_  
Roger Knoblock, Director

Date: See Effective Date on page 1

\_\_\_\_\_/s/\_\_\_\_\_  
Robert E. Ladd, Director

\_\_\_\_\_/s/\_\_\_\_\_  
Kennis Peters, Director

\_\_\_\_\_/s/\_\_\_\_\_  
Scott A. Schneidermann, Director

\_\_\_\_\_/s/\_\_\_\_\_  
Robert L. Witt, Director